

CITY OF COUNCIL GROVE
MORRIS COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
STATUTORY BASIS FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Council Grove
Morris County, Kansas

STATUTORY BASIS FINANCIAL STATEMENTS
Year Ended December 31, 2010

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ALDRICH & COMPANY, LLC

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the City Council
City of Council Grove, Kansas

We have audited the accompanying primary government financial statements of the City of Council Grove, Kansas, as of and for the year ended December 31, 2010 as listed in the table of contents. These statutory basis financial statements are the responsibility of City of Council Grove, Kansas, management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the City's 2009 financial statements and, in our report dated May 25, 2010, we expressed an unqualified opinion on the respective financial statements, taken as a whole, on the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The primary government financial statements referred to above do not include the financial data of component units of the City of Council Grove, Kansas, as of December 31, 2010. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described in Note 1, the City of Council Grove, Kansas, prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of differences between these regulatory practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the omission of the discretely presented component unit as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Council Grove, Kansas, as of December 31, 2010, or the changes in its financial position, or where applicable, its cash flows for the year then ended. Further, the City of Council Grove, Kansas has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Council Grove, Kansas, as of December 31, 2010, and its cash receipts and expenditures, and budgetary results for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
June 15, 2011

The City of Council Grove
Morris County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2010

| Fund | Beginning Unencumbered Cash Balance | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
|---|---|------------------|--------------|--|---|------------------------|
| General | \$ 1,312,372 | \$ 1,509,708 | \$ 1,520,107 | \$ 1,301,973 | \$ 127,980 | \$ 1,429,953 |
| Special Revenue | | | | | | |
| Industrial Development | 0 | 14,566 | 13,386 | 1,180 | 0 | 1,180 |
| Library | 0 | 72,807 | 66,932 | 5,875 | 0 | 5,875 |
| Special Highway | 117,452 | 60,950 | 99,418 | 78,984 | 0 | 78,984 |
| Special Recreation | 31,468 | 3,073 | 2,460 | 32,081 | 0 | 32,081 |
| Employee Benefits | 14,451 | 279,018 | 232,669 | 60,800 | 3,852 | 64,652 |
| Highway Maintenance | (31,101) | 107,590 | 0 | 76,489 | 0 | 76,489 |
| Diversion | 9,326 | 3,200 | 6,608 | 5,918 | 0 | 5,918 |
| Equipment Reserve | 171,390 | 104,000 | 129,157 | 146,233 | 0 | 146,233 |
| Capital Improvement Reserve | 192,811 | 35,659 | 5,760 | 222,710 | 0 | 222,710 |
| Debt Service | | | | | | |
| Bond and Interest Fund | 4,785 | 23,269 | 26,187 | 1,867 | 0 | 1,867 |
| Proprietary | | | | | | |
| Water | 370,222 | 758,919 | 736,146 | 392,995 | 14,891 | 407,886 |
| Maintenance Reserve | 128,842 | 15,000 | 0 | 143,842 | 0 | 143,842 |
| Sewer | 103,656 | 193,926 | 181,675 | 115,907 | 1,993 | 117,900 |
| Sewer Reserve | 131,347 | 58,400 | 176,813 | 12,934 | 138,413 | 151,347 |
| Refuse | 6,486 | 134,905 | 135,296 | 6,095 | 0 | 6,095 |
| Internal Service | | | | | | |
| Computer | 20,263 | 5,517 | 0 | 25,780 | 0 | 25,780 |
| Total Reporting Entity(Excluding Agency Funds) | \$ 2,583,770 | \$ 3,380,507 | \$ 3,332,614 | \$ 2,631,663 | \$ 287,129 | \$ 2,918,792 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2010

| Fund | Beginning Unencumbered Cash Balance | Cash Receipts | Expenditures | Ending Unencumbered Cash Balance | Add Outstanding Encumbrances and Accounts Payable | Ending Cash Balance |
|---|---|---------------------|---------------------|--|---|------------------------|
| Total Reporting Entity(Excluding Agency Funds) | <u>\$ 2,583,770</u> | <u>\$ 3,380,507</u> | <u>\$ 3,332,614</u> | <u>\$ 2,631,663</u> | <u>\$ 287,129</u> | <u>\$ 2,918,792</u> |

Composition of Cash:

| | |
|--------------------------------|---------------------|
| Emprise Checking | \$ 334,694 |
| Emprise grant account | 2,468 |
| Farmers & Drovers Money Market | 1,410,286 |
| Farmers & Drovers C.D. | 1,254,052 |
| Petty cash | 200 |
| Less: Agency Funds Statement 4 | (82,908) |
| | <u>\$ 2,918,792</u> |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 2

Summary of Expenditures - Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2010

| FUNDS | Certified Budget | Adjustment for Qualifying Budget Credits | Total Budget for Comparison | Expenditures Chargeable to Current Year | Variance Favorable (Unfavorable) |
|------------------------|---------------------|--|-----------------------------------|---|--|
| General | \$ 2,177,660 | | \$ 2,177,660 | \$ 1,520,107 | \$ 657,553 |
| Special Revenue | | | | | |
| Industrial Development | 15,197 | | 15,197 | 13,386 | 1,811 |
| Library | 75,990 | | 75,990 | 66,932 | 9,058 |
| Special Highway | 209,057 | | 209,057 | 99,418 | 109,639 |
| Special Recreation | 35,364 | | 35,364 | 2,460 | 32,904 |
| Employee Benefits | 272,970 | 24,955 | 297,925 | 232,669 | 65,256 |
| Highway Maintenance | 126,392 | | 126,392 | 0 | 126,392 |
| Diversion | 7,500 | | 7,500 | 6,608 | 892 |
| Debt Service | | | | | |
| Bond and Interest Fund | 28,688 | | 28,688 | 26,187 | 2,501 |
| Enterprise | | | | | |
| Water | 791,830 | | 791,830 | 736,146 | 55,684 |
| Sewer | 207,353 | | 207,353 | 181,675 | 25,678 |
| Refuse | 140,000 | | 140,000 | 135,296 | 4,704 |
| Internal Service | | | | | |
| Computer | 18,464 | | 18,464 | 0 | 18,464 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|---|-------------------------|---------------------|---------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Taxes | | | | |
| Morris County | \$ 543,508 | \$ 415,490 | \$ 431,919 | \$ (16,429) |
| City Sales taxes | 365,643 | 356,716 | 350,000 | 6,716 |
| Franchise taxes | 109,978 | 108,363 | 108,000 | 363 |
| Total Taxes | <u>1,019,129</u> | <u>880,569</u> | <u>889,919</u> | <u>(9,350)</u> |
| Intergovernmental Revenues | | | | |
| LAVTR | 0 | 0 | 0 | 0 |
| Sales tax | 161,348 | 158,429 | 150,000 | 8,429 |
| Liquor tax | 3,605 | 3,073 | 3,642 | (569) |
| Total Intergovernmental | <u>164,953</u> | <u>161,502</u> | <u>153,642</u> | <u>7,860</u> |
| Miscellaneous | | | | |
| Licenses and permits | 43,122 | 49,027 | 50,000 | (973) |
| Fines & forfeitures | 37,840 | 28,935 | 36,500 | (7,565) |
| Lake budget and transfer fees | 9,500 | 11,500 | 15,000 | (3,500) |
| Reimbursed expenses | 97,254 | 25,704 | 0 | 25,704 |
| Recreation fees, donations, and concessions | 31,395 | 27,842 | 36,500 | (8,658) |
| Sale of property | 0 | 0 | 0 | 0 |
| Miscellaneous | 0 | 67,031 | 15,500 | 51,531 |
| Total Miscellaneous | <u>219,111</u> | <u>210,039</u> | <u>153,500</u> | <u>56,539</u> |
| Use of Money and Property | | | | |
| Interest | 38,197 | 25,357 | 30,000 | (4,643) |
| Hay crop | 5,750 | 5,150 | 5,000 | 150 |
| Fees for services | 9,080 | 5,565 | 6,000 | (435) |
| Rural fire contract | 24,000 | 18,000 | 24,000 | (6,000) |
| Cabin leases & fees | 190,475 | 203,526 | 180,500 | 23,026 |
| Total Use of Money and Property | <u>267,502</u> | <u>257,598</u> | <u>245,500</u> | <u>12,098</u> |
| Total Cash Receipts | <u>\$ 1,670,695</u> | <u>\$ 1,509,708</u> | <u>\$ 1,442,561</u> | <u>\$ 67,147</u> |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------|-------------------------|-------------------|-------------------|--|
| | | Actual | Budget | |
| Expenditures | | | | |
| General Administration | | | | |
| Personal services | \$ 123,252 | \$ 123,479 | \$ 151,500 | \$ 28,021 |
| Contractual | 57,501 | 66,290 | 64,608 | (1,682) |
| Commodities | 9,785 | 10,821 | 15,550 | 4,729 |
| Capital outlay | 0 | 9,500 | 10,700 | 1,200 |
| Total General Administration | <u>190,538</u> | <u>210,090</u> | <u>242,358</u> | <u>32,268</u> |
| Police Department | | | | |
| Personal services | 226,897 | 237,277 | 268,550 | 31,273 |
| Contractual | 51,432 | 38,989 | 49,800 | 10,811 |
| Commodities | 29,603 | 28,225 | 41,350 | 13,125 |
| Capital outlay | 0 | 0 | 5,000 | 5,000 |
| Total Police Department | <u>307,932</u> | <u>304,491</u> | <u>364,700</u> | <u>60,209</u> |
| Street Department | | | | |
| Personal services | 124,022 | 134,858 | 142,550 | 7,692 |
| Contractual | 26,041 | 24,318 | 45,600 | 21,282 |
| Commodities | 28,750 | 65,868 | 73,800 | 7,932 |
| Capital outlay | 0 | 0 | 72,500 | 72,500 |
| Total Street Department | <u>178,813</u> | <u>225,044</u> | <u>334,450</u> | <u>109,406</u> |
| Swimming Pool | | | | |
| Personal services | 7,328 | 17,700 | 10,100 | (7,600) |
| Contractual | 9,615 | 14,226 | 33,500 | 19,274 |
| Commodities | 4,292 | 10,480 | 5,400 | (5,080) |
| Capital outlay | 0 | 0 | 2,000 | 2,000 |
| Total Swimming Pool | <u>21,235</u> | <u>42,406</u> | <u>51,000</u> | <u>8,594</u> |
| City Lake | | | | |
| Personal services | 63,734 | 71,800 | 74,500 | 2,700 |
| Contractual | 33,320 | 44,719 | 25,850 | (18,869) |
| Commodities | 7,852 | 25,396 | 30,700 | 5,304 |
| Capital outlay | 11,787 | 6,157 | 14,000 | 7,843 |
| Total City Lake | <u>\$ 116,693</u> | <u>\$ 148,072</u> | <u>\$ 145,050</u> | <u>\$ (3,022)</u> |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|-----------------------|-------------------------|------------------|------------------|--|
| | | Actual | Budget | |
| City Parks | | | | |
| Personal services | \$ 40,169 | \$ 37,279 | \$ 50,375 | \$ 13,096 |
| Contractual | 12,590 | 23,541 | 22,300 | (1,241) |
| Commodities | 2,331 | 5,581 | 7,700 | 2,119 |
| Capital outlay | 0 | 0 | 8,500 | 8,500 |
| Total City Parks | <u>55,090</u> | <u>66,401</u> | <u>88,875</u> | <u>22,474</u> |
| Cemetery Care | | | | |
| Personal services | 33,379 | 29,495 | 32,500 | 3,005 |
| Contractual | 5,049 | 2,649 | 5,500 | 2,851 |
| Commodities | 1,781 | 329 | 2,000 | 1,671 |
| Capital outlay | 0 | 0 | 1,500 | 1,500 |
| Total Cemetery Care | <u>40,209</u> | <u>32,473</u> | <u>41,500</u> | <u>9,027</u> |
| City Fire | | | | |
| Personal services | 11,489 | 12,401 | 17,325 | 4,924 |
| Contractual | 11,075 | 10,742 | 13,500 | 2,758 |
| Commodities | 1,671 | 5,861 | 9,100 | 3,239 |
| Capital outlay | 0 | 1,580 | 9,500 | 7,920 |
| Total City Fire | <u>24,235</u> | <u>30,584</u> | <u>49,425</u> | <u>18,841</u> |
| Rural Fire | | | | |
| Personal services | 5,927 | 4,065 | 9,500 | 5,435 |
| Contractual | 10,942 | 10,779 | 10,300 | (479) |
| Commodities | 1,603 | 5,861 | 5,500 | (361) |
| Capital outlay | 0 | 1,580 | 8,000 | 6,420 |
| Total Rural Fire | <u>18,472</u> | <u>22,285</u> | <u>33,300</u> | <u>11,015</u> |
| Municipal Court | | | | |
| Personal services | 13,727 | 13,872 | 18,270 | 4,398 |
| Contractual | 7,117 | 7,146 | 13,500 | 6,354 |
| Commodities | 331 | 0 | 250 | 250 |
| Capital outlay | 0 | 0 | 1,000 | 1,000 |
| Total Municipal Court | <u>\$ 21,175</u> | <u>\$ 21,018</u> | <u>\$ 33,020</u> | <u>\$ 12,002</u> |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-1

GENERAL FUND
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|--|-------------------------|---------------------|---------------------|--|
| | | Actual | Budget | |
| Recreation | | | | |
| Personal services | \$ 51,148 | \$ 64,180 | \$ 60,830 | \$ (3,350) |
| Contractual | 21,785 | 16,832 | 29,050 | 12,218 |
| Commodities | 26,399 | 33,612 | 48,391 | 14,779 |
| Capital outlay | 19,652 | 8,426 | 20,000 | 11,574 |
| Total Recreation Department | <u>118,984</u> | <u>123,050</u> | <u>158,271</u> | <u>35,221</u> |
| Street Lighting | 44,803 | 46,852 | 45,000 | (1,852) |
| Infrastructure - sales tax disbursed | 114,112 | 14,268 | 216,519 | 202,251 |
| Infrastructure - Washington Street payment | 53,503 | 53,503 | 53,503 | 0 |
| Promotions | 82,307 | 102,570 | 241,689 | 139,119 |
| Transfers to other funds | <u>79,000</u> | <u>77,000</u> | <u>79,000</u> | <u>2,000</u> |
| Total Expenditures | <u>1,467,101</u> | <u>1,520,107</u> | <u>2,177,660</u> | <u>657,553</u> |
| Receipts Over (Under) Expenditures | 203,594 | (10,399) | <u>\$ (735,099)</u> | <u>\$ 724,700</u> |
| Unencumbered Cash, January 1 | <u>1,108,778</u> | <u>1,312,372</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 1,312,372</u> | <u>\$ 1,301,973</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-2

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

INDUSTRIAL DEVELOPMENT

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|---------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Taxes | \$ 15,770 | \$ 14,566 | \$ 15,197 | (631) |
| Expenditures | | | | |
| Industrial Development | <u>15,770</u> | <u>13,386</u> | <u>15,197</u> | <u>1,811</u> |
| Receipts Over (Under) Expenditures | 0 | 1,180 | <u>\$ 0</u> | <u>\$ 1,180</u> |
| Unencumbered Cash, January 1 | <u>0</u> | <u>0</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 0</u> | <u>\$ 1,180</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-3

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

LIBRARY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|---------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Taxes | \$ 78,860 | \$ 72,807 | \$ 75,990 | \$ (3,183) |
| Expenditures | | | | |
| Library appropriation | <u>78,860</u> | <u>66,932</u> | <u>75,990</u> | <u>9,058</u> |
| Receipts Over (Under) Expenditures | 0 | 5,875 | <u>\$ 0</u> | <u>\$ 5,875</u> |
| Unencumbered Cash, January 1 | <u>0</u> | <u>0</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 0</u> | <u>\$ 5,875</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-4

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

SPECIAL HIGHWAY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|------------------|---------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| State of Kansas | \$ 57,111 | \$ 60,950 | \$ 65,320 | \$ (4,370) |
| Expenditures | | | | |
| Street repairs and improvements | <u>24,966</u> | <u>99,418</u> | <u>209,057</u> | <u>109,639</u> |
| Receipts Over (Under) Expenditures | 32,145 | (38,468) | <u>\$ (143,737)</u> | <u>\$ 105,269</u> |
| Unencumbered Cash, January 1 | <u>85,307</u> | <u>117,452</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 117,452</u> | <u>\$ 78,984</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-5

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

SPECIAL RECREATION

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|--|-------------------------|------------------|--------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Liquor tax | \$ 3,605 | \$ 3,073 | \$ 3,643 | \$ (570) |
| Other | 0 | 0 | 0 | 0 |
| Total Cash Receipts | 3,605 | 3,073 | 3,643 | (570) |
| Expenditures | | | | |
| Contractual | 0 | 0 | 0 | 0 |
| Commodities | 0 | 2,460 | 35,364 | 32,904 |
| Capital Outlay | 0 | 0 | 0 | 0 |
| Adjustment for qualifying budget credits | 0 | 0 | 0 | 0 |
| Total Expenditures | 0 | 2,460 | 35,364 | 32,904 |
| Receipts Over (Under) Expenditures | 3,605 | 613 | <u>\$ (31,721)</u> | <u>\$ 32,334</u> |
| Unencumbered Cash, January 1 | <u>27,863</u> | <u>31,468</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 31,468</u> | <u>\$ 32,081</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-6

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

EMPLOYEE BENEFITS

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|------------------|--------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Taxes | \$ 197,267 | \$ 254,063 | \$ 266,804 | \$ (12,741) |
| Reimbursed expense | 25,563 | 24,955 | 0 | 24,955 |
| Total Cash Receipts | 222,830 | 279,018 | 266,804 | 12,214 |
| Expenditures | | | | |
| Social Security | 51,966 | 55,544 | 65,000 | 9,456 |
| Health & dental | 115,723 | 128,068 | 120,000 | (8,068) |
| Unemployment | 859 | 6,772 | 5,000 | (1,772) |
| KPERS | 31,979 | 42,285 | 45,000 | 2,715 |
| Workers compensation | 22,925 | 0 | 36,600 | 36,600 |
| Firemen's relief | 1,918 | 0 | 1,370 | 1,370 |
| Adjustment for budget credit | 0 | 0 | 24,955 | 24,955 |
| Total Expenditures | 225,370 | 232,669 | 297,925 | 65,256 |
| Receipts Over (Under) Expenditures | (2,540) | 46,349 | <u>\$ (31,121)</u> | <u>\$ 77,470</u> |
| Unencumbered Cash, January 1 | 16,991 | 14,451 | | |
| Unencumbered Cash, December 31 | <u>\$ 14,451</u> | <u>\$ 60,800</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-7

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

HIGHWAY MAINTENANCE

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|---|-------------------------|--------------|--------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| State of Kansas | \$ 21,525 | \$ 107,590 | \$ 21,143 | \$ 86,447 |
| Expenditures | | | | |
| Street improvements | 136,733 | 0 | 126,392 | 126,392 |
| Adjustments for qualifying budget credits | 0 | 0 | 0 | 0 |
| Total expenditures | 136,733 | 0 | 126,392 | 126,392 |
| Receipts Over (Under) Expenditures | (115,208) | 107,590 | \$ (105,249) | \$ 212,839 |
| Unencumbered Cash, January 1 | 84,107 | (31,101) | | |
| Unencumbered Cash, December 31 | \$ (31,101) | \$ 76,489 | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-8

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

DIVERSION

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|-------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Diversion fees | \$ 3,826 | \$ 3,200 | \$ 1,000 | \$ 2,200 |
| Expenditures | | | | |
| Commodities | <u>0</u> | <u>6,608</u> | <u>7,500</u> | <u>892</u> |
| Receipts Over (Under) Expenditures | 3,826 | (3,408) | <u>\$ (6,500)</u> | <u>\$ 3,092</u> |
| Unencumbered Cash, January 1 | <u>5,500</u> | <u>9,326</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 9,326</u> | <u>\$ 5,918</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-9

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

EQUIPMENT RESERVE

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Transfers In | \$ 87,500 | \$ 95,500 |
| Insurance proceeds | 0 | 8,500 |
| Grants | 0 | 0 |
| Total Receipts | 87,500 | 104,000 |
| Expenditures | | |
| Equipment | 145,690 | 129,157 |
| Receipts Over (Under) Expenditures | (58,190) | (25,157) |
| Unencumbered Cash, January 1 | 229,580 | 171,390 |
| Unencumbered Cash, December 31 | \$ 171,390 | \$ 146,233 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-10

SPECIAL REVENUE FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

CAPITAL IMPROVEMENT RESERVE

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Intergovernmental | \$ 0 | \$ 0 |
| Special assessments | 423 | 306 |
| Pool donations | 0 | 353 |
| Reimbursed expenses | 2,250 | 0 |
| Loan proceeds | 27,805 | 0 |
| Transfers in | 20,000 | 35,000 |
| Total Receipts | 50,478 | 35,659 |
| Expenditures | | |
| Capital Improvements | 1,205 | 5,760 |
| Receipts Over (Under) Expenditures | 49,273 | 29,899 |
| Unencumbered Cash, January 1 | 143,538 | 192,811 |
| Unencumbered Cash, December 31 | \$ 192,811 | \$ 222,710 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-11

DEBT SERVICE
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

BOND & INTEREST

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|-------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Morris County | \$ 22,557 | \$ 23,269 | \$ 24,160 | \$ (891) |
| Expenditures | | | | |
| Principal | 20,000 | 20,000 | 20,000 | 0 |
| Interest | 7,098 | 6,187 | 6,188 | 1 |
| Cash basis reserve | <u>0</u> | <u>0</u> | <u>2,500</u> | <u>2,500</u> |
| Total Expenditures | <u>27,098</u> | <u>26,187</u> | <u>28,688</u> | <u>2,501</u> |
| Receipts Over (Under) Expenditures | (4,541) | (2,918) | <u>\$ (4,528)</u> | <u>\$ 1,610</u> |
| Unencumbered Cash, January 1 | <u>9,326</u> | <u>4,785</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 4,785</u> | <u>\$ 1,867</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-12

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual And Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

WATER UTILITY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|---------------------------|-------------------------|--------------|------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Charges for services | \$ 649,097 | \$ 697,739 | \$ 650,000 | \$ 47,739 |
| Connection/treatment fees | 3,257 | 5,429 | 2,000 | 3,429 |
| Penalties | 6,532 | 7,298 | 4,000 | 3,298 |
| Security deposits | 6,540 | 7,260 | 8,000 | (740) |
| Reimbursed expenses | 12,090 | 40,188 | 5,000 | 35,188 |
| Other | 636 | 1,005 | 0 | 1,005 |
| Total Cash Receipts | 678,152 | 758,919 | 669,000 | 89,919 |
| Expenditures | | | | |
| Production | | | | |
| Personal services | 113,648 | 115,301 | 97,950 | (17,351) |
| Contractual services | 69,293 | 68,912 | 46,700 | (22,212) |
| Commodities | 44,673 | 57,023 | 81,600 | 24,577 |
| Capital outlay | 0 | 48,470 | 57,000 | 8,530 |
| Total Production | 227,614 | 289,706 | 283,250 | (6,456) |
| Distribution | | | | |
| Personal services | 122,217 | 117,728 | 102,050 | (15,678) |
| Contractual services | 11,587 | 8,464 | 55,450 | 46,986 |
| Commodities | 43,846 | 32,521 | 37,300 | 4,779 |
| Capital outlay | 16,081 | 14,412 | 18,000 | 3,588 |
| Total Distribution | 193,731 | 173,125 | 212,800 | 39,675 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-12

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

WATER UTILITY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|--------------|--------------|--|
| | | Actual | Budget | |
| General and administrative | | | | |
| Personal services | \$ 31,131 | \$ 30,481 | \$ 34,750 | \$ 4,269 |
| Contractual services | 11,214 | 10,656 | 20,900 | 10,244 |
| Commodities | 1,058 | 2,694 | 3,100 | 406 |
| Capital outlay | 0 | 0 | 8,500 | 8,500 |
| Other | 12,290 | 13,954 | 13,000 | (954) |
| Total General and administrative | 55,693 | 57,785 | 80,250 | 22,465 |
| Principal | 84,560 | 87,743 | 87,743 | 0 |
| Interest | 72,470 | 69,287 | 69,287 | 0 |
| Transfers out | 23,500 | 58,500 | 58,500 | 0 |
| Total Expenditures | 657,568 | 736,146 | 791,830 | 55,684 |
| Receipts Over (Under) Expenditures | 20,584 | 22,773 | \$ (122,830) | \$ 145,603 |
| Unencumbered Cash, January 1 | 349,638 | 370,222 | | |
| Unencumbered Cash, December 31 | \$ 370,222 | \$ 392,995 | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-13

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

WATER MAINTENANCE RESERVE

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Water plant loan proceeds | \$ 0 | \$ 0 |
| Transfer from water | 5,000 | 15,000 |
| Total Cash Receipts | 5,000 | 15,000 |
| Expenditures | | |
| Water system maintenance | 0 | 0 |
| Water plant upgrade principal | 0 | 0 |
| Water plant upgrade interest | 0 | 0 |
| Water plant improvements | 0 | 0 |
| Total Expenditures | 0 | 0 |
| Receipts Over (Under) Expenditures | 5,000 | 15,000 |
| Unencumbered Cash, January 1 | 123,842 | 128,842 |
| Unencumbered Cash, December 31 | \$ 128,842 | \$ 143,842 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-14

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual And Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

SEWER UTILITY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-------------------|--------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Charges for services | \$ 158,362 | \$ 193,926 | \$ 164,500 | \$ 29,426 |
| Special assessments | 1,281 | 0 | 3,000 | (3,000) |
| Other | 0 | 0 | 300 | (300) |
| Total Cash Receipts | <u>159,643</u> | <u>193,926</u> | <u>167,800</u> | <u>26,126</u> |
| Expenditures | | | | |
| Personal services | 47,843 | 53,115 | 53,920 | 805 |
| Contractual services | 18,011 | 15,584 | 31,950 | 16,366 |
| Commodities | 15,593 | 13,745 | 21,300 | 7,555 |
| Capital outlay | 0 | 8,275 | 9,000 | 725 |
| Principal | 45,113 | 46,692 | 46,919 | 227 |
| Interest | 15,843 | 14,264 | 14,264 | 0 |
| Transfers out | <u>30,000</u> | <u>30,000</u> | <u>30,000</u> | <u>0</u> |
| Total Expenditures | <u>172,403</u> | <u>181,675</u> | <u>207,353</u> | <u>25,678</u> |
| Receipts Over (Under) Expenditures | (12,760) | 12,251 | <u>\$ (39,553)</u> | <u>\$ 51,804</u> |
| Unencumbered Cash, January 1 | <u>116,416</u> | <u>103,656</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 103,656</u> | <u>\$ 115,907</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-15

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

SEWER RESERVE

| | Prior Year Actual | Current Year Actual |
|------------------------------------|-------------------------|---------------------------|
| Cash Receipts | | |
| Transfer from sewer | \$ 20,000 | \$ 20,000 |
| Sewer loan | 0 | 38,400 |
| Transfer from sewer | 20,000 | 58,400 |
| Expenditures | | |
| Sewer system maintenance | 4,000 | 176,813 |
| Receipts Over (Under) Expenditures | 16,000 | (118,413) |
| Unencumbered Cash, January 1 | 115,347 | 131,347 |
| Unencumbered Cash, December 31 | \$ 131,347 | \$ 12,934 |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-16

PROPRIETARY FUND
Statement of Cash Receipts and Expenditures - Actual And Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

REFUSE UTILITY

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|-----------------|----------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Charges for services | \$ 133,127 | \$ 134,905 | \$ 140,000 | \$ (5,095) |
| Transfers in | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Cash Receipts | 133,127 | 134,905 | 140,000 | (5,095) |
| Expenditures | | | | |
| Contractual services | 129,397 | 129,779 | 140,000 | 10,221 |
| Computer service | <u>1,799</u> | <u>5,517</u> | <u>0</u> | <u>(5,517)</u> |
| Total Expenditures | <u>131,196</u> | <u>135,296</u> | <u>140,000</u> | <u>4,704</u> |
| Receipts Over (Under) Expenditures | 1,931 | (391) | <u>\$ 0</u> | <u>\$ (391)</u> |
| Unencumbered Cash, January 1 | <u>4,555</u> | <u>6,486</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 6,486</u> | <u>\$ 6,095</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 3-17

INTERNAL SERVICE FUND
Statement of Cash Receipts and Expenditures - Actual And Budget
For the Year Ended December 31, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

COMPUTER FUND

| | Prior Year Actual | Current Year | | Variance Favorable (Unfavorable) |
|------------------------------------|-------------------------|------------------|--------------------|--|
| | | Actual | Budget | |
| Cash Receipts | | | | |
| Charges for services | \$ 1,799 | \$ 5,517 | \$ 5,000 | \$ 517 |
| Expenditures | | | | |
| Contractual services | <u>0</u> | <u>0</u> | <u>18,464</u> | <u>18,464</u> |
| Receipts Over (Under) Expenditures | 1,799 | 5,517 | <u>\$ (13,464)</u> | <u>\$ 18,981</u> |
| Unencumbered Cash, January 1 | <u>18,464</u> | <u>20,263</u> | | |
| Unencumbered Cash, December 31 | <u>\$ 20,263</u> | <u>\$ 25,780</u> | | |

The accompanying notes are an integral part of this statement.

The City of Council Grove
Morris County, Kansas

Statement 4

AGENCY FUNDS
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2010

| | <u>Beginning Cash Balance</u> | <u>Cash Receipts</u> | <u>Cash Expenditures</u> | <u>Ending Cash Balance</u> |
|--------------------|-----------------------------------|--------------------------|------------------------------|--------------------------------|
| Cemetery Endowment | \$ 79,595 | \$ 1,400 | \$ 0 | \$ 80,995 |
| Performance Bond | <u>1,913</u> | <u>0</u> | <u>0</u> | <u>1,913</u> |
| Total | <u>\$ 81,508</u> | <u>\$ 1,400</u> | <u>\$ 0</u> | <u>\$ 82,908</u> |

The accompanying notes are an integral part of this statement.

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Council Grove is a governmental entity governed by a six member council and mayor. The City provides the following services: public safety (police and fire), streets, sanitation, water, recreation, public improvements, planning and zoning and general administrative services. The City operates two major enterprise activities; water and sewer. In addition, the city also contracts for solid waste collection.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic--but not the only--criterion for including a potential component unit within the reporting entity is financial accountability. The most significant manifestation of the criterion is financial dependence. Other manifestations of the criteria include but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Under this criterion, the Council Grove Public Library was identified as a component unit. The city council appoints all members of the library board. Because it is not a separate taxing entity under applicable state statutes, the City levies taxes for their operations. These financial statements do not include the operations of the Council Grove Public Library.

The following organization is not included because it is an autonomous entity. The Firemen's Relief Association provides insurance and other benefits to firemen. Kansas statutes provide for funding through assessing a charge on fire insurance premiums paid.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund -- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds -- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund -- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Proprietary Funds:

Enterprise Funds -- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Proprietary Funds (Cont):

Internal Service Fund – The Internal Service Fund is used to account for services provided by one department to other departments of the City on a cost-plus basis.

Fiduciary Fund Types

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other funds, and/or other governmental units. These include Expendable Trust Funds, Non-expendable Trust Funds, and Agency Funds. Agency funds are custodial in nature (assets equal liabilities).

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund that the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense; liabilities such as deferred revenue and matured principal and interest payable; and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods sold and services received during the year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 - BUDGETARY INFORMATION (CONT)

budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds, and the following special revenue & utility reserve funds: Equipment Reserve, Capital Improvement Reserve, Water Maintenance Reserve and Sewer Reserve.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under 9-1402 and 9-1405.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2010.

The City maintains a cash pool that is available for use by all funds. At year-end, the carrying amount of the city's deposits, including certificates of deposit, was \$3,001,500. The bank balance was \$3,052,054. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 - CASH AND DEPOSITS (CONT)

FDIC insurance and \$2,552,054 was collateralized with securities held by the pledging financial institutions' agents in the City's name. The third party bank is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the city, the pledging bank, and the independent third party bank holding the pledged securities. The city held no investments at December 31, 2010.

NOTE 4 - PROPERTY TAXES

The City certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year. The second installment is due May 10 of the subsequent year. The county collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

NOTE 5 - COMPENSATED ABSENCES

The City's policies regarding vacation and sick leave permit employees to accumulate a maximum of 6.16 hours of vacation pay and 3.69 hours of sick pay per pay period. No more than five days of vacation pay may be carried forward to the next anniversary year. Sick pay compensation at retirement is restricted to a maximum of thirty days and only if the employee worked at least ten years and is at least 55 years old. All accumulated vacation pay is payable upon employment termination. A maximum of seventy-five days of sick pay may be accumulated. Unused sick pay is forfeited upon employment termination other than retirement. Compensated absence payments are made from the fund that corresponds to the employees duties.

NOTE 6 - COMPARATIVE DATA

The amounts shown for 2009 in the financial statements are included, where practicable, only to provide a basis for comparison with 2010, and are not intended to present all information necessary for a fair presentation in accordance with the cash basis and budget laws of Kansas. Interfund eliminations have not been made in the aggregation of this data.

NOTE 7 - LONG-TERM DEBT

General Obligation Bonds

General obligation bonds, payable from future property tax revenues and special assessments, are serial bonds to be retired through calendar year 2015. At December 31, 2010, the bonds consisted of the following:

Series 2001, Fire Station, due in annual installments ranging from \$10,000 to \$25,000, issued February 1, 2001, carrying interest from 3.9% to 4.9%. Payments are made from the bond and interest fund.

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 - LONG-TERM DEBT (CONT)

KDOT loan

The City entered into a loan agreement with the Kansas Department of Transportation as of May 12, 2008 for a curb and gutter project on Washington Street. The loan is for \$703,261 and carries an interest rate of 3.99%. The city has dedicated sales tax proceeds from the general fund to finance the project, or in absence of sales tax revenues, they agree to levy tax sufficient for repayment. Interest payments are scheduled semi-annually, and principal payments are scheduled annually. Both interest and principal payments began on August, 1, 2009.

KDHE loans

The City maintains a loan payable, secured by revenues derived from the operation of the sewer utility system payable to the Kansas Department of Health and Environment. Semi-annual payments of \$30,478 are scheduled. The loan carries an interest rate of 3.47%. Payments are made from the sewer fund.

In 2010, the City also began a project to improve the existing sewage system. The total estimated project cost of \$509,600 is to be financed with a loan from the Kansas Department of Health and Environment. Semi-annual payments of \$16,342.97 are scheduled beginning March 1, 2012. Payments are scheduled to be made from the sewer fund. The loan carries an interest rate of 2.55%.

The City also carries a loan payable to the Kansas Department of Health and Environment for its water system improvements. These improvements were completed in 2006. Semi-annual payments of \$92,809.11 began in February 2006. In December 2007, the final loan agreement was received and carries semi-annual payments of \$78,515 for the remaining thirty-six payments. The loan carries an interest rate of 3.73% and payments are made from the water fund.

Lease Agreement

The City entered into a lease agreement for the purchase of a John Deere backhoe. Sixty payments of \$1,186.19 are scheduled with a final payment of \$100. The first payment was made in August 2004. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments were made from the equipment reserve fund. The final lease payment was made as scheduled in 2009.

The city entered into a lease agreement for the purchase of a fire/ladder truck on August 7, 2006. Sixty payments of \$1,128 are scheduled with a final payment of \$100. The first payment was made in September 2006. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments were made from the equipment reserve fund.

The city entered into a lease agreement for the purchase of fire equipment on June 25, 2007. Sixty payments of \$558 are scheduled with a final payment of \$100. The first payment was made in August 2007. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments were made from the equipment reserve fund.

City of Council Grove
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

Changes in long term liabilities for the year ended December 31, 2010 were as follows:

| | Interest Rate | Date of Issue | Amount of Issue | Date of Final Maturity | Balance Payable January 1 | Additions | Reductions/ Payments | Net Change | Balance Payable December 31 | Interest Paid |
|--------------------------------|---------------|---------------|-----------------|------------------------|---------------------------|------------------|----------------------|-------------------|-----------------------------|-------------------|
| General Obligation Bonds: | | | | | | | | | | |
| Series 2001 Fire Station | 3.9%-4.9% | 2/1/2001 | \$ 260,000 | 9/1/2015 | \$ 130,000 | \$ 0 | \$ 20,000 | | \$ 110,000 | \$ 6,187 |
| KDOT loan | | | | | | | | | | |
| Washington Street Proj TR 0075 | 3.99% | 5/12/2008 | \$ 703,300 | 8/1/2027 | 662,390 | 0 | 27,073 | | 635,317 | 26,430 |
| KDHE loans | | | | | | | | | | |
| KDHE Water Pollution Control | | | | | | | | | | |
| Revolving Fund Revenues | 3.47% | 11/25/1996 | 878,230 | 9/1/2017 | 422,644 | 0 | 46,692 | | 375,952 | 14,264 |
| Revolving Fund Revenues | 2.55% | | 509,600 | 9/1/2031 | 0 | 38,400 | 0 | | 38,400 | 0 |
| KDHE Water Loan | 3.73% | 2/2/2004 | 2,258,481 | 8/1/2025 | 1,879,287 | 0 | 87,743 | | 1,791,544 | 69,287 |
| Capital Leases: | | | | | | | | | | |
| Fire equipment | 5.25% | 6/25/2007 | 29,433 | 8/4/2012 | 16,232 | 0 | 5,987 | | 10,245 | 710 |
| Fire truck | 5.25% | 8/7/2006 | 59,533 | 9/1/2011 | <u>21,648</u> | <u>0</u> | <u>12,703</u> | | <u>8,945</u> | <u>833</u> |
| Total contractual indebtedness | | | | | 3,132,201 | 38,400 | 200,198 | | 2,970,403 | <u>\$ 117,711</u> |
| Security deposits | | | | | 60,194 | | | 1,005 | 61,199 | |
| Compensated absences | | | | | <u>106,628</u> | <u>0</u> | <u>0</u> | <u>(6,408)</u> | <u>100,220</u> | |
| Total long-term debt | | | | | <u>\$ 3,299,023</u> | <u>\$ 38,400</u> | <u>\$ 200,198</u> | <u>\$ (5,403)</u> | <u>\$ 3,131,822</u> | |

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

Current maturities on long term debt and interest for the next five years and in five year increments through maturity are as follows:

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016-2020 | 2021-2025 | 2026-2030 | 2031 | Total |
|------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|-------------------|------------------|---------------------|
| Principal | | | | | | | | | | |
| General Obligation Bonds: | | | | | | | | | | |
| Series 2001 Fire Station | 20,000 | 20,000 | 20,000 | 25,000 | 25,000 | 0 | 0 | 0 | 0 | 110,000 |
| KDOT loan: | | | | | | | | | | |
| Washington St Proj | 28,154 | 29,277 | 30,445 | 31,660 | 32,923 | 185,401 | 225,460 | 71,997 | 0 | 635,317 |
| KDHE loans: | | | | | | | | | | |
| KDHE Water Pollution | 48,326 | 50,018 | 51,769 | 53,580 | 55,456 | 116,803 | 0 | 0 | 0 | 375,952 |
| KDHE Water Pollution | - | 19,817 | 20,325 | 20,847 | 21,382 | 115,427 | 131,017 | 148,714 | 32,071 | 509,600 |
| KDHE Water Loan | 91,047 | 94,474 | 98,031 | 101,722 | 105,551 | 590,443 | 710,276 | 0 | 0 | 1,791,544 |
| Capital Leases: | | | | | | | | | | |
| Fire/ladder truck | 8,945 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,945 |
| Fire equipment | 6,309 | 3,936 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,245 |
| Total Principal | <u>202,781</u> | <u>217,522</u> | <u>220,570</u> | <u>232,809</u> | <u>240,312</u> | <u>1,008,074</u> | <u>1,066,753</u> | <u>220,711</u> | <u>32,071</u> | <u>3,441,603</u> |
| Interest | | | | | | | | | | |
| General Obligation Bonds: | | | | | | | | | | |
| Series 2001 Fire Station | 5,268 | 4,338 | 3,398 | 2,438 | 1,225 | 0 | 0 | 0 | 0 | 16,667 |
| KDOT loan: | | | | | | | | | | |
| Washington St Proj | 25,349 | 24,226 | 23,058 | 21,843 | 20,580 | 82,113 | 42,054 | 3,725 | 0 | 242,948 |
| KDHE loans: | | | | | | | | | | |
| KDHE Water Pollution | 12,630 | 10,938 | 9,187 | 7,376 | 5,500 | 5,109 | | | | 50,740 |
| KDHE Water Pollution | 0 | 12,869 | 12,361 | 11,839 | 11,304 | 48,003 | 32,413 | 14,716 | 615 | 144,120 |
| KDHE Water Loan | 65,983 | 62,556 | 58,999 | 55,308 | 51,479 | 194,708 | 74,875 | 0 | 0 | 563,908 |
| Capital Leases: | | | | | | | | | | |
| Fire/ladder truck | 179 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 179 |
| Fire equipment | 388 | 70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 458 |
| Total Interest | <u>109,797</u> | <u>114,997</u> | <u>107,003</u> | <u>98,804</u> | <u>90,088</u> | <u>329,933</u> | <u>149,342</u> | <u>18,441</u> | <u>615</u> | <u>1,019,020</u> |
| Total Principal and Interest | <u>\$ 312,578</u> | <u>\$ 332,519</u> | <u>\$ 327,573</u> | <u>\$ 331,613</u> | <u>\$ 330,400</u> | <u>\$ 1,338,007</u> | <u>\$ 1,216,095</u> | <u>\$ 239,152</u> | <u>\$ 32,686</u> | <u>\$ 4,460,623</u> |

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 8 - FUND TRANSFERS

The City transferred monies between funds as allowed by applicable Kansas statutes. The following schedule details transfers made in 2010.

| Transferred from: | Transferred to: | Statute | Amount |
|-------------------|---------------------|----------|----------|
| General | Equipment Reserve | 12-1,117 | \$62,000 |
| General | Capital Improvement | 12-1,118 | 15,000 |
| Water | Equipment Reserve | 12-1,117 | 23,500 |
| Sewer | Equipment Reserve | 12-1,117 | 10,000 |
| Water | Water Reserve | 12-825d | 15,000 |
| Sewer | Sewer Reserve | 12-825d | 20,000 |
| Water | Capital Improvement | 12-1,118 | 20,000 |

NOTE 9 - COMPLIANCE FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

Management is not aware of any statutory violations for the period covered by this audit.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan description The City of Council Grove participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding policy K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% or 6% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the employer contribution rates. The employer rate established for 2010 was 7.14% with a 1% reduction for April through June. The City of Council Grove employer contributions to KPERS for the years ending December 31, 2010, 2009, and 2008, were \$57,319, \$43,784, and \$44,111, respectively, equal to the required contributions for each year.

City of Council Grove
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss including risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has been unable to obtain workers' compensation insurance at a cost it considered to be economically justifiable. For this reason the City joined together with other cities in the state to participate in the Kansas Municipal Insurance Trust (KMIT), a public entity risk pool currently operating as a common risk management and insurance program for 141 participating members.

The City pays an annual premium to KMIT for its worker's compensation insurance coverage. The City, along with other participating entities, contributes annual amounts as determined by KMIT management and underwriters. The agreement to participate provides that the KMIT will be self-sustaining through member premiums and currently holds \$3,000,000 of excess insurance with a specific retention of \$750,000. A member is only responsible for additional contributions to the KMIT trust which relate to claims arising out of occurrences in years in which the City is a member of the trust. As claims arise, they are submitted to and paid by KMIT.

The City continues to carry commercial insurance for all other risks of loss including property and liability insurance. There were no significant reductions in insurance coverage from coverage in place in prior years.

NOTE 12 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan ("plan") created in accordance with Internal Revenue Code Section 457. The plan, available to all city employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until employment termination, retirement, death, or unforeseeable emergency. Plan assets are transferred to a plan agent in a custodial trust.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts shall be held in trust for the exclusive benefit of participants and their beneficiaries. All such amounts shall not be subject to the claims or the employer's general creditors.

NOTE 13 – OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan until age 65. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

NOTE 14 – KDOT CULVERT REPLACEMENT

The city entered into agreements with the Kansas Department of Transportation for the replacement of culverts on East and West Main Street. The city's portion of cost is \$100,000. The East Main project was completed in 2009 and the West Main project was begun in 2011.

City of Council Grove
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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 15 – GRANTS

The city received an Assistance to Firefighters Grant for firefighting equipment in 2008. The approved costs were \$76,760, with grant reimbursement of \$72,922 and city share of \$3,838. The money was expended 2009.

NOTE 16 – NEW HOUSE INCENTIVE PROGRAM

In 2007, the city implemented a new house incentive program to stimulate city growth. For the first twenty new houses built inside city limits with a valuation of \$100,000 to \$300,000, the city will refund the city's portion of property tax paid for up to five years upon proof of payment. In addition, the first five new houses in each calendar year with the previously mentioned valuation, will receive a one time \$5,000 incentive payment once framing begins. This \$5,000 incentive is limited to one per person/family or entity per year. These incentives are non-transferable and apply only to the first homeowner. Plans must be submitted to the city council, city administrator and building inspector for approval.

The city has also incorporated other various features such as the waiver of certain fees, free sewer service for one year, and free minimum water for one year. Several businesses in the city have also agreed to provide additional benefits for new homeowners.

The city reserves the right to reject any or all applications for the New House Incentive program if the council deems necessary for any reason. The city can also amend, add, or delete any or all of the qualification guidelines at any time. Additional requirements and applications are available at city hall.

NOTE 17 – UTILITY DEPOSITS

The city requires utility deposits for city water services. Deposits are kept indefinitely until service is disconnected. Interest is paid annually and is credited to the individual's account. Refunds of deposit and interest are from the water fund.

NOTE 18 – LEGAL

The city is currently in a boundary line dispute case with a Council Grove Lake lease holder. Following remand from the Kansas Court of Appeals, the City's board of Boundary Appeals heard the issue. The leaseholders attempted to appeal that decision to the district court, which found that they had not acted timely. The plaintiff has appealed to the Kansas Court of Appeals. The city's attorney for this matter believes that inasmuch as this is a boundary dispute, that there will be no monetary loss.

NOTE 19 – SEWER IMPROVEMENTS

The city is currently updating its' wastewater lagoon treatment facility to achieve compliance with regulations. The project began in 2010. To achieve compliance, engineers have formulated a plan of action which consists of sludge removal, restructuring the piping, riprap erosion protection, minor pretreatment screens, and miscellaneous valve work. Total cost of the project is estimated to be \$509,600. Funding will be accomplished through low interest loans with KDHE and the use of the city's sewer replacement/reserve funds. As of December 31, 2010, the city had expended \$176,813.

City of Council Grove
Morris County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

NOTE 20 – PUBLIC POOL

The city is currently exploring available options for the construction of a new city pool in 2012. A task force has been formed to evaluate and suggest options for further consideration.